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SUBJECT: SERBIA: GOVERNMENT REIGNS IN EXECUTIVE SALARIES AT STATE COMPANIES

Reftel: Belgrade 1243

SUMMARY

11. The Serbian government recommended a cap on state-owned companies (SOC) managing board members' salaries and the public disclosure of SOC executive salaries in response to two high profile scandals in which general managers of SOC's received high salaries and bonuses. On November 6, the government approved a recommendation that would cap board members' salaries at \$500 (the average salary in Serbia in October 2008) and at \$750 and \$600 for board presidents and vice-presidents, respectively. The government plans a similar recommendation for SOC managers. The recommendations were positive steps toward reducing state expenditures during the financial crisis and increased transparency. The attempt at transparency notwithstanding, cronyism and misuse of SOC monies for party interests are still prevalent. End Summary.

SALARY SCANDALS PROMPTS GOVERNMENT INVOLVEMENT

12. Weeks before the November scandal and resignation of Belgrade Airport General Manager Bojan Kristo hit the press and brought public scorn against high paid executives of state-owned companies (SOC), the government had already approved a recommendation to reign in SOC executive salaries (Reftel). The recommendation came amid public pressure after Milenko Sarancic, the recently dismissed director of SOC Zeleznice Srbije (Railroads of Serbia), raised his last salary payment in October from \$1,700 to \$9,000. Zeleznice Srbije is a heavily subsidized and highly indebted SOC. On November 6, the government approve a recommendation to cap monthly salaries of SOC board of directors (BoD) members at the October 2008 net average of \$500. Presidents and vice-presidents of the BoD would receive \$750 and \$600, respectively, plus an eight percent adjustment for projected inflation. As a comparison, the BoD president of state-owned oil company NIS earns \$9,900 while the Prime Minister reportedly earns only \$1,700. The government's recommendation would go into effect January 2009. Immediately after the airport scandal, the government called for another recommendation that would require SOC's to disclose salary information to the government. Currently salary information is classified as an "official secret." Several SOC's including Telekom Srbija announced they would lower board member and executive salaries in response to the recommendation. The government plans to approve a similar recommendation for SOC managers' salaries.

13. On the other hand, the salaries of government ministers are transparent and are three times higher than the average net salary in Serbia. The prime minister has the highest salary of \$1,700, followed by the deputy prime ministers with \$1,500 and ministers with \$1,450. Although ministers' salaries are relatively high by Serbian standards, in most cases their public salaries are not their main source of income. Most ministers have side businesses that often carry conflicts of interest.

¶4. Sasa Mogic, Cabinet Chief at the Ministry of State Administration and Self Government, told us on December 3 that the government legally did not have the power to set SOC board or executive salaries, but had the authority to approve or reject companies' annual budgets. Therefore, the government could only indirectly affect salaries. The recommendations, however, sent the message to SOC executives to act responsibly during this difficult financial period. Mogic estimated that savings from lower BoD salaries could reach \$14 million annually. Mogic also said the government would suggest that SOC adopted internal regulations on official phone, car, and apartment use. Companies would be required to submit regular reports on operations to the government for budget adjustment.

SOCs HELP FUND POLITICAL PARTY

¶5. Transparency International Program Director Nemanja Nenadic told us on December 4 that the government's reactions were positive steps toward reducing spending during the financial crisis. However, Nenadic believed these reactions did not provide a solution to the lack of professionalization of these companies, which should be the long-term goal. He confirmed speculation that politically appointed directors and BoD members were required to tithe, on average, 10% of their salaries to their party as membership fee. Nenadic also said cronyism, misuse of SOC funds, and abuse of company benefits for party interests remained unaddressed.

Comment

¶6. The government's attempt to cap executive salaries and introduce more controls in SOC is a positive step toward more transparency and state savings, especially during the current economic crisis. As the reality and consequences of the crisis sets in, the government may target controversial wasteful spending as low hanging fruit, in a show of solidarity with the public. In the short-term, amid public pressure, the recommendation will reduce SOC costs. In the long-run, however, low executive compensation will make it hard to attract high-quality management talent to run state firms. End

Comment.

MUNTER